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## **Brazil**

## **Grain and Feed**

## **Annual**

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### **Report Highlights:**

**Brazil's wheat production is forecast to rise from 3.19 million tons to 3.5 million tons in 2002 due to higher minimum prices and the Government's program to expand wheat production. Corn production is forecast to rebound from 37 million tons in 2001/02 to 38.5 million tons in 2002/03. Rice production is forecast to remain flat in 2002/03 after rising 6 percent in 2001/02.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Brasilia [BR1], BR

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## EXECUTIVE SUMMARY

### Wheat:

The Brazilian Ministry of Agriculture, Livestock and Food Supply (MAPA) has introduced a program to expand domestic wheat production. The Government raised the minimum price for wheat and instated higher prices for non-traditional growing regions. Due to the higher minimum price for wheat, post is forecasting a 12-percent increase in the area planted to wheat, and a nearly 10-percent rise in production for 2002 to 3.5 million tons. Despite stronger domestic wheat production, Brazil will remain dependent on imports. Domestic production satisfied 32 percent of wheat consumption in 2001, rising substantially from only 15 percent in 2000. With favorable weather, domestic production is forecast to cover 34 percent of Brazil's consumption needs in 2002.

Brazil's wheat imports are forecast to fall from 7.2 million tons to 6.5 million in 2002 due to the expected increase in domestic production. U.S. wheat exports in CY2001 rose to 82,426 tons valued at nearly \$10 million, ranking as the U.S.' third largest single agricultural export to Brazil for the year.

### Corn:

Following a record crop in 2000/01, Brazil's corn production is forecast to fall 11 percent in 2001/02, provided the winter crop is strong and enjoys favorable weather. Acreage for the summer crop fell as many producers opted in favor of soybean production, while the southernmost states of Rio Grande do Sul and Santa Catarina suffered significant losses in their summer corn crop due to a drought. Concerned with the drop in corn production, the Minister of Agriculture announced measures to encourage and increase the corn winter crop, or "safrinha," which is expected to be significantly higher than last year. Corn area and production are forecast to increase 2 and 4 percent, respectively, in 2002/03. Corn will continue to compete against soybeans and cotton for area during the summer crop, and against wheat in the winter crop.

Traditionally a net importer, Brazil emerged as a corn exporter and exported a record 5.8 million tons last year. Brazil's corn exports were stimulated by a weakening currency relative to the U.S. dollar, large supplies, and generalized fears over biotechnology among some of the world's largest corn importers. Corn exports for 2002/03 are forecast at 2 million tons. The expected decline in corn exports is not due to dropping demand for Brazilian corn, but rather to smaller supplies resulting from reduced stocks and lower production. Corn imports for 2001/02 are forecast at 1.1 million tons as Brazil will be forced to increase imports in order to meet domestic consumption needs. Due to an expected increase in production in 2002/03, imports are projected at 600,000 tons and exports at 800,000 tons.

### Rice:

Rice area and production are forecast to remain flat in 2002, after rising 5 and 6 percent, respectively, in 2001. Yields increased 3 percent in 2001 due to favorable weather, greater use of technological inputs, and planting of improved varieties. Declining per capita consumption, low prices, and large regional stocks discourage increased production, while decreases in production unlikely due to the considerable investments and inputs in place for irrigated rice production.

Despite large supplies, regional rice trade continues due to the nature of Mercosul. Rice imports are forecast at 618,000 tons in 2001/02 and 600,000 tons in 2002/03. Exports are forecast at 136,000 tons for 2001/02, and at 50,000 tons in 2002/03. Exports are destined for Mercosul countries, as well as to Venezuela from new rice growing regions in the northern state of Roraima.

## ECONOMIC SITUATION

The economic stabilization program known as the Real Plan was the centerpiece of the first Cardoso Administration and was initiated in 1994. The plan was highly successful in reducing long standing inflation by essentially pegging a new currency, the Real, to the U.S. dollar. The plan also inaugurated one of the world's largest privatization programs with revenues to date from the sale of state-owned enterprises of some US\$90 billion. However, success came at a high price - high real interest rates, a growing dependence on external finance, and slowing growth and high employment. The Government also failed to get its fiscal accounts in order, which left Brazil vulnerable to external shocks.

Brazil has been implementing a fiscal stabilization program that was devised following the Russian debt default in August 1998 which undermined all emerging economies. The program was revised after the country was forced to switch to a floating exchange rate regime and devaluation in January 1999. The main features of the program are adherence to fiscal and monetary targets set in conjunction with the International Monetary Fund's US\$42 billion assistance package and implementation of a number of structural fiscal measures. These include administrative, tax and social security reforms, and passage of a Fiscal Responsibility Law meant to ensure budgetary discipline at all levels and branches of government.

Brazil switched to a floating exchange rate system at the beginning of 1999 and withstood remarkably well a 60 percent depreciation against the U.S. dollar. The GDP grew only 1.5 percent in 2001, with consumer inflation at 7.7 percent, due to the effects of the Argentine economic crisis, energy rationing, and the impact of September 11. Economic growth and inflation in 2002 are forecast at 2.5 percent and 5 percent, respectively.

Devaluation in 1999 and further weakening of the Real has had mixed effects on the farm sector. The cost of production has increased due to the higher cost of imported inputs, such as fuel (and thus harvest and transportation costs), any imported seeds, fertilizers, herbicides, and pesticides. Devaluation also increased the cost of imported commodities, and imports of higher-value products decreased proportionally more than basic products. However, export sectors, such as the soybean and poultry meat, have become more competitive.

Brazil has emerged as leader in international affairs based on its strong position economically in South America and among its MERCOSUL partners. In terms of general and agricultural trade, Brazil will be an important player in the World Trade Organization and the Free Trade Area of the Americas negotiations. Their Foreign Ministry, highly professional and experienced, takes the lead on all trade negotiations. With the shift away from support and subsidies for agricultural producers in Brazil, Government officials have been extremely active and vocal during the past year, indicating that agricultural trade and market access must on the agendas of the WTO and FTAA negotiations.

Brazil's two-way global trade in 2001 totaled nearly \$114 billion, up 2.5 percent from 2000; the U.S. accounts for 25 percent of Brazil's trade (commercial aircraft, shoes, transmissions, and steel products). U.S. exports to Brazil are primarily capital goods (integrated circuits, turbo engines, computers, and transmission/receptor devices). Brazil registered a \$2.6 billion global trade surplus in 2001, and an impressive \$15 billion surplus in agricultural trade. While the agricultural sector accounts for only 13 percent of Brazil's Gross Domestic Product, agricultural exports represent nearly 30 percent of Brazil's total exports. Total Brazilian agricultural exports in CY2001 reached US\$19 billion, while Brazilian agricultural imports were only US\$3.7 billion. Brazil's agricultural exports to the United States are nearly 8 times higher than U.S. agricultural exports to Brazil. Primary U.S. agricultural exports to Brazil (CY2001=\$232 million) include beverage bases, feeds, wheat, dairy products, live animals, processed fruit and vegetables and juices, hides and skins, planting seeds,

and pet foods. Primary Brazilian agricultural exports to the United States (CY2001 = \$1.8 billion) include tobacco, coffee, panel products, lumber, tree nuts, red meats (prep/pres), fruit and vegetable juices, raw cane sugar, shrimp, and lobster.

## WHEAT

### Wheat PS&D

PSD Table						
Country	Brazil					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Harvested	1468	1468	1587	1587	0	1780
Beginning Stocks	1250	932	700	130	700	424
Production	1660	1658	3000	3194	0	3500
TOTAL Mkt. Yr. Imports	7289	7610	6500	7200	0	6500
Jul-Jun Imports	7518	7610	6500	7200	0	6500
Jul-Jun Import U.S.	53	100	0	200	0	200
TOTAL SUPPLY	10199	10200	10200	10524	700	10424
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	200	500	200	200	0	200
TOTAL Dom. Consumption	9499	10070	9500	10100	0	10200
Ending Stocks	700	130	700	424	0	224
TOTAL DISTRIBUTION	10199	10200	10200	10524	0	10424

### Production

Nearly all of the wheat in Brazil is grown in the three southern-most states, with Parana as the largest producer. Wheat is a winter crop, and competes with the second crop corn. The main planting season is roughly April in Parana through June in Rio Grande do Sul, and harvest runs from September through November. The local marketing year is August through July.

The Brazilian Ministry of Agriculture, Livestock and Food Supply (MAPA) has introduced a program to expand domestic wheat production. The program aims to reduce imports from 75 percent to 50 percent of domestic consumption by 2004, thereby saving the nation an estimated \$350 million annually. The goal is to produce 6.7 million tons of wheat by 2005, which would represent a more than doubling of the 2001 harvest.

In an effort to encourage wheat production, the Brazilian government raised the minimum price for wheat and instated higher prices for non-traditional growing regions. This year's minimum price for wheat in the three southern states of Rio Grande do Sul, Santa Catarina, and Parana is R\$285/ton (roughly US\$121/ton) while Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal enjoy a higher minimum price of R\$300/ton (US\$128/ton). Last year's minimum price for wheat was R\$225/ton (US\$96/ton) for all regions.

While the South still accounts for 94 percent of the nation's harvest, wheat production is making important advances in the center-west. Government and private researchers are developing appropriate wheat varieties for the savannah (cerrado). The center-west has substantial area with elevation above 500 meters, where cold night time temperatures and low humidity favor wheat production. The center-west has 2 million hectares of available land which could be planted in wheat, although actual acreage will depend on minimum prices, other government support programs, seed availability, and the relative prices of imports. Wheat area in the state of Mato Grosso do Sul is expected to jump from 60,000 hectares in 2001 to 100,000 hectares in 2002 due to the higher minimum wheat price. However, this acreage remains well below the 430,000 hectares planted in 1987 when government support for Brazilian wheat production was considerably higher.

Industry support and confidence in wheat production in the center-west is evidenced by investments. For instance, Multigrain recently invested R\$15 million in milling facilities in Mato Grosso. The plant's milling capacity will climb from 4,500 tons to 15,000 tons per month within a year. The irrigated wheat in the cerrado is high quality and is used for bread production and as an improver in blending, and has an average yield for irrigated production in the center-west of 5 to 5.5 tons/hectare, compared to only 2 tons/hectare in traditional non-irrigated southern production regions. Irrigated wheat area in the cerrado may double in 2002 with the increase in minimum prices.

The government may have to buy Brazilian wheat in order to guarantee the minimum price, as domestic wheat prices are likely to fall in late 2002 due to increased production in Brazil and Argentina. Devaluation of the peso is likely to stimulate wheat production in Argentina, thereby possibly lowering the Brazilian import price below the new minimum prices. The center-west and Parana should remain little affected as their harvests begin in August and September, respectively. Rio Grande do Sul's harvest which begins in November, however, coincides with Argentina's, and is likely to result in price pressure in the Brazilian market. The devaluation of the peso and a large Argentine wheat crop may depress prices, thereby making imported Argentine wheat cheaper than domestic product. In order to guarantee the minimum price, the Government has asserted that they have the resources to buy up to 1 million tons of the next wheat crop, if necessary.

Although an Embrapa study indicates that Brazil has the potential to plant 5.2 million hectares of wheat, producing 12.9 million tons, such an increase would be difficult to achieve. FUNDACEP (a private research institute in Rio Grande do Sul) asserts that a number of factors limit wheat production in Rio Grande do Sul (RS), the nation's second largest wheat producing state. Area planted to wheat in RS has declined due to prices below the cost of production, insufficient credit, frustrations with poor harvests due to poor weather, increasing input costs, and inability to compete with imports. The cost of wheat production in RS is double that in Argentina and the United States, and has been rising. Wheat production in RS requires extensive fertilizer use, and commodity prices have not kept up with increasing input costs. Furthermore, Brazil does not enjoy a favorable climate for wheat production, and crops are often affected by droughts, floods, and frosts. Given Brazil's climate, production is limited to the southernmost states. In order to increase Brazilian wheat production, area to other crops would have to be reduced, or the healthy rotation of crops would have to be

abandoned.

Due to low corn prices, producers in the South would have preferred to have planted wheat for a winter crop in 2001. Corn area in 2001 would have been 20 to 30 percent larger, but was limited by a seed shortage. High wheat prices encouraged producers to sell their already smaller frost and rain damaged crop in 2000, thereby reducing seed availability for the next planting season. Roughly half of Brazilian wheat producers save their grain to use as seed in the following year.

Due to the higher minimum price for wheat, post is forecasting a 12-percent increase in the area planted to wheat, and a nearly 10-percent rise in production for 2002. Despite stronger domestic wheat production, Brazil will remain dependent on imports. Domestic production satisfied 32 percent of wheat consumption in 2001, rising substantially from only 15 percent in 2000. With favorable weather, domestic production is forecast to cover 34 percent of Brazil's consumption needs in 2002.

Wheat consumption is forecast to rise 1 percent in 2002. Brazilian wheat consumption has been rising steadily for 40 years, and the upward trend is expected to continue. As the economy strengthens and incomes rise, Brazilian consumers are shifting from rice and other starches to wheat-based products.

## Trade

Argentina's wheat exports to Brazil were suspended for more than a month in the beginning of the year due to the Argentine currency devaluation and economic uncertainty. During the stoppage, Brazilian millers feared the supply shortages would interrupt their operations and requested the temporary removal of the Mercosul common export tariff (CXT) in order to facilitate imports from non-Mercosul nations. The CXT was not lifted and sales resumed before causing serious difficulties in the Brazilian market. However, Brazilian flour millers are now concerned about increasing imports of Argentine flour resulting from the devaluation of the Argentine peso. Argentine flour has become more competitive and the devaluation allows mills to give discounts in dollars. Argentine mills have incentives to export as their costs are in pesos and exports are dollar-based. Furthermore, dampened demand in Argentina due to the economic difficulties is also likely encourage greater exports.

Wheat imports entering through the Port of Santos will face time-consuming red tape and become more expensive after September 1<sup>st</sup> due to a decision by the Receita Federal to enforce a law published in 1996. Normative Instruction number 37/96 states that international trade transactions must take place in Customs locations. Wheat will no longer be permitted to unload directly into mills' trucks, but rather must be held in Customs' warehouses until documentation is liberated. Bureaucracy could tie up product for several days, possibly causing losses of up to \$30,000 per shipment. Nearly 40 percent of the nation's wheat imports enter through the port of Santos.

As a result of agricultural liberalization, the Brazilian milling sector has been undergoing increasing concentration, as has much of the agricultural sector. The number of operating wheat mills in Brazil has fallen from 489 in 1967 to only 200 today. Nearly 60 percent of the Brazilian milling market is controlled by 4 large companies; Bunge Alimentos (Santista Alimentos), J. Macedo, Predileto (Moinho Cruzeiro do Sul), and Anaconda. National milling capacity is estimated at 13 to 16 million tons per year, indicating idle capacity of 38 percent. Milling capacity is primarily located in the south and in Sao Paulo. The northeastern state of Ceara has emerged as the 2<sup>nd</sup> largest wheat importer due to its concentration of four large mills which purchase roughly



750,000 tons per year.

On August 21, the Brazilian Government released Normative Instruction No. 7 in the Diario Oficial (Federal Register) which established new Technical Rules on Wheat Identification and Quality. (See Report # BR1619 entitled, "New Brazilian Technical Rules on Wheat Identification and Quality"). The new rule was to go into effect as of January 1, 2002. Imported wheat with more than 2 percent dockage and foreign material will be classified as substandard and banned from entry. However, due to extensive protest by Argentina, the Brazilian government relaxed the rule, and is allowing imports of substandard wheat under a loophole based on "exceptional circumstances." A joint commission will be formed to study the harmonization of Mercosul wheat classification standards.

The new regulations were established largely due to complaints by ABITRIGO (the Brazilian Wheat Industry Association), wheat importers, and millers about high content of dockage and foreign material in Argentine wheat. Dockage is generally greatest in Up River Argentine wheat, ranging from 4 to 5 percent, although it reaches as high as 6 percent. The Nocochea region has lower a percentage of dockage, although even wheat from that region would probably require greater cleaning in order to meet the regulations. Argentina was concerned with the new rule, because their wheat port cleaning facilities are limited. Although costs for imported Argentine wheat would increase, Brazilian importers feel that the price increase would balance the extra costs they endure cleaning the impure wheat. The effect on U.S. and Canadian wheat imports would be minimal, because the wheat is generally under the 2 percent dockage level. Furthermore, substantial cleaning facilities exist in cases where additional cleaning is necessary to meet the requirements.

Brazil's wheat imports are forecast to fall from 7.2 million tons to 6.5 million in 2002 due to the expected increase in domestic production. Brazil relies on imports for the majority of its consumption, with Argentina as its primary supplier. Argentina enjoys many advantages in the Brazilian market, such as proximity, lower transportation costs, shorter delivery times, and protection from the 11.5 percent MERCOSUL duty and 25 percent merchant marine tax. Despite Argentina's advantages, there are significant opportunities for U.S. wheat, particularly from May through September preceding the Brazilian harvest. Furthermore, importers and millers have stated a willingness to pay a premium for U.S. wheat, given its superior quality. Due to the shortfall in the 2000 Brazilian crop, the United States had opportunities with soft wheat exports, as Argentine wheat is semi-hard, and is closer to HRW than to a soft wheat. However, a strong crop in Argentina, as well as reduced domestic demand there due to economic difficulties, benefitted Argentine wheat exports at the expense of U.S. wheat, which was disadvantaged by a smaller crop and higher prices.

On March 15, 2001, the Brazilian Ministry of Agriculture lifted long-standing restrictions on imports of Hard Red Winter, Hard Red Spring, and Soft Red Winter wheat. U.S. wheat exports in CY2001 rose to 82,426 tons valued at nearly \$10 million, ranking as the U.S.' third largest single agricultural export to Brazil for the year. However, this remains well below volumes before the ban and before the Mercosul common export tariff gave the market to Argentina. In 1996, before Brazil imposed import restrictions on U.S. wheat, it purchased roughly 760,000 tons of U.S. wheat worth \$174 million. For the time being, the import ban remains on shipments of U.S. durum and all wheat out of the west coast because of phytosanitary concerns. USDA continues to work with the Brazilian government to resolve the import restrictions.

In the past year, millers purchased hand-to-mouth, due to high wheat prices, the weakening of the Brazilian Real relative to the U.S. dollar, and slower economic growth. Importers were reluctant to take longer-term positions, and closely monitored the exchange rate, economic problems domestically and in Argentina, and the Brazilian



and Argentine wheat crop progress. The cost of imports increased as the Real weakened, while economic difficulties depressed wheat consumption.

## CORN

### Corn PS&D

PSD Table						
Country	Brazil					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		04/2001		04/2002		04/2003
Area Harvested	12972	12972	12300	12310	0	12550
Beginning Stocks	600	1322	2186	1447	1211	647
Production	41536	41536	36000	37000	0	38500
TOTAL Mkt. Yr. Imports	300	625	525	1100	0	600
Oct-Sep Imports	671	600	500	1100	0	600
Oct-Sep Import U.S.	16	50	0	50	0	0
TOTAL SUPPLY	42436	43483	38711	39547	1211	39747
TOTAL Mkt. Yr. Exports	6200	5800	2500	2000	0	800
Oct-Sep Exports	3744	4000	5300	3800	0	800
Feed Dom. Consumption	30050	32000	31000	34000	0	34000
TOTAL Dom. Consumption	34050	36236	35000	36900	0	37300
Ending Stocks	2186	1447	1211	647	0	1647
TOTAL DISTRIBUTION	42436	43483	38711	39547	0	39747

### Production

Corn is produced in nearly every state in Brazil. However, 85 to 90 percent of total production is concentrated in the Center-South region, with Parana as the largest producer. There are two corn crops in Brazil. The main crop is planted in September through November. The second crop, or "safrinha"(little crop), is planted in the South from late January through March, and competes for area with other winter crops such as wheat. The corn crop in the North and Northeast regions begins in February, but is statistically considered part of the first crop. The local marketing year in Brazil runs from March to February.

Following a record crop in 2000/01, Brazil's corn production is forecast to fall 11 percent in 2001/02, provided

the winter crop is strong and enjoys favorable weather. Acreage for the summer crop fell as many producers opted in favor of soybean production. The weakening of the Brazilian currency relative to the dollar amplified the difference between soybean and corn prices, as soybeans are an export crop and corn is produced for domestic consumption and has low liquidity. The Government announced a minimum price program to provide incentives for corn production in order to ensure enough sufficient domestic production to meet demand. However, the measures were inadequate and too late to deter a significant drop in production. Many farmers had already purchased seeds and inputs, and the south had already begun planting.

The southernmost states of Rio Grande do Sul and Santa Catarina suffered significant losses in their summer corn crop due to a drought. Parana, the nation's leading corn producing state, was largely unaffected, with only a few counties reporting damage. While the south suffered from a drought, the center-west experienced heavy rainfalls, thereby reducing quality. Some of the losses due to adverse weather were partially offset by strong yields and production in the southeast. The expected losses in production are boosting domestic corn prices and complicating efforts to further increase pork and poultry exports.

Concerned with the drop in corn production, the Minister of Agriculture announced measures to encourage and increase the corn winter crop, or "safrinha." He requested R\$50 million (roughly US\$21 million) in credit to be offered by the Bank of Brazil in order to facilitate producer access and purchase of inputs for the winter crop production. The winter crop is expected to be significantly higher than last year, however, in the south it will compete against wheat for area and winter crops are often damaged by adverse weather.

Corn area and production are forecast to increase 2 and 4 percent, respectively, in 2002/03. Corn will continue to compete against soybeans and cotton for area during the summer crop, and against wheat in the winter crop.

## Trade

Traditionally a net importer, Brazil emerged as a corn exporter and exported a record 5.8 million tons last year. Brazil's corn exports were stimulated by a weakening currency relative to the U.S. dollar, large supplies, and generalized fears over biotechnology among some of the world's largest corn importers. Large stocks and an impending record crop pressured prices downwards. Furthermore, the weaker Real enabled Brazil to sell its corn increasingly cheaper in U.S. dollars. However, the most significant factor in Brazil's recent export success was the interest by corn importers to source non-GMO product. Fears over biotechnology improved even more the export picture for Brazil, which prohibits commercial planting of genetically modified crops. New labeling requirements for products containing GMOs are influencing purchasing patterns, as importers view Brazilian corn as less risky. In less than a year, Brazilian corn transformed from a discount product to a premium commodity, largely because Brazil prohibits the commercial planting of biotech crops. In December, 20,000 tons of corn was sold at US\$100 per ton FOB, ranging between US\$4 and US\$6 above the Chicago Board of Trade quotes.

Corn exports for 2002/03 are forecast at 2 million tons. The expected decline in corn exports is not due to dropping demand for Brazilian corn, but rather to smaller supplies resulting from reduced stocks and lower production. The drop in production will also increase the need for imports, particularly in the Northeast, where it is historically cheaper to import corn from Argentina due to high internal freight costs. Due to losses from the drought, the South will also need to import corn to support the pork and poultry industry. The industry is concerned that they will have trouble sourcing non-GMO corn, thereby hurting their GMO-free image.

Corn imports for 2001/02 are forecast at 1.1 million tons as Brazil will be forced to increase imports in order to meet domestic consumption needs. Due to an expected increase in production in 2002/03, imports are projected at 600,000 tons and exports at 800,000 tons.

## RICE

### Rice PS&D

PSD Table						
Country	Brazil					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		04/2001		04/2002		04/2003
Area Harvested	3250	3250	3370	3407	0	3407
Beginning Stocks	1513	1363	1045	1110	1067	1116
Milled Production	7062	7062	7480	7480	0	7480
Rough Production	10385	10385	11000	11000	0	11000
MILLING RATE (.9999)	6800	6800	6800	6800	0	6800
TOTAL Imports	490	663	525	618	0	600
Jan-Dec Imports	500	663	500	618	0	600
Jan-Dec Import U.S.	0	2	0	0	0	0
TOTAL SUPPLY	9065	9088	9050	9208	1067	9196
TOTAL Exports	25	22	25	136	0	50
Jan-Dec Exports	25	22	25	136	0	50
TOTAL Dom. Consumption	7995	7956	7958	7956	0	7956
Ending Stocks	1045	1110	1067	1116	0	1190
TOTAL DISTRIBUTION	9065	9088	9050	9208	0	9196

### Production

Rice is grown in every state in Brazil, although the southern state of Rio Grande do Sul (RS) accounts for nearly half of the nation's total production. Long grain rice predominates and is produced under irrigation and dryland conditions. Roughly half of the rice production is irrigated, almost all of which is produced in RS. The south continues to shift from dryland production to more production under irrigation, and dryland rice production is

increasing in the Center-West due to the opening of new lands. There has been an increase in new areas being opened up for soybean production, and rice is generally planted for two years before conversion to soybeans. Furthermore, low production costs and new higher yielding dryland varieties with very good quality characteristics and yields are promoting expansion in the Center-West. Planting runs from September through November and harvest runs from the following February through April. The local marketing year runs from March to the following February.

Rice area and production are forecast to remain flat in 2002, after rising 5 and 6 percent, respectively, in 2001. Yields increased 3 percent in 2001 due to favorable weather, greater use of technological inputs, and planting of improved varieties. Declining per capita consumption, low prices, and large regional stocks discourage increased production, aside from the center-west where soybean area is preceded by rice. Continued large supplies and weak prices are discouraging an increase in production, while decreases in production unlikely due to the considerable investments and inputs in place for irrigated rice production.

Rice industries are increasing investments in Mato Grosso, the nation's second largest rice producer, due to financial incentives and expanding rice production in the state. The state government approved a tax waiver of 75 percent over the state trade tax for rice. Roughly R\$8 million will be directed to the State of Mato Grosso Rice Agribusiness Incentive Program for 2002. The program will aid the modernization and expansion of the state's milling capacity. The program also encourages the use of certified seeds, and boosts technical assistance to producers with additional training programs. The city of Sinop, 481 kilometers north of the capital Cuiba, has emerged as an important center for the Brazilian rice industry. Last year, milling capacity in the city grew 50 percent to 900,000 tons per year as several of the major southern-based Brazilian millers installed and expanded operations. Rice companies say they are not concerned with the recent drop in regional production as they feel that their presence will offer greater security to producers and encourage production.

In an environment of declining per capita rice consumption, Brazilian rice companies struggle to increase market share as is evidenced by recent buyouts. After giving up on buying equity control of Josapar, Camil Holding LLC surprised the market in February 2002 when it acquired the brand Pai Joao from the Rio Grande do Sul based company Helmuth Tesmann. The purchase of Pai Joao had been virtually completed by SLC Alimentos, a Grupo Schneider Logemann company. Josapar, Camil and SLC are the first, second, and third market leaders, respectively. Camil's objective is to increase its presence in the Northeast, the second largest market region in the nation and one of the few areas where consumption is still on the rise. Camil's purchase last year of Samam in Recife, Pernambuco marked the company's entrance into the region. The company continues to seek further acquisitions and aims to become the leader in the Brazilian rice market.

While rice companies battle for market share, the fight among producers is even stronger. The industry is requesting a variety of support tools (such as those listed in the policy and domestic support section), claiming that success of commercialization of this year's crop depends on government support. Rice growers within Mercosul have been requesting an increase in the Common Export tariff (TEC) to 35 percent for paddy rice imported outside of Mercosul. The southern state of Rio Grande do Sul has been obstructing rice imports. Last month, Rio Grande do Sul erected SPS barriers along the border, which the state government claimed was to block the entry of pests and prevent neighboring countries from flooding the Brazilian market with their excess production. They asserted that the imports include product imported from Vietnam, the United States, and other outside nations, and therefore have the risk of carrying exotic diseases. However, the greatest concern is that imports depress local prices. Brazilian producers have also protested that Brazil should not import rice from countries who subsidize production. Following the implementation of the SPS barriers by Rio Grande do Sul,

the federal government quickly stepped in and removed the barriers and announced marketing assistance to ease the situation. However, producers are disappointed with the government measures, particularly in terms of the time period and value of support. The producers would prefer options contracts between March and May instead of July-October as they must pay their operation costs during the earlier time period. Producers also wanted a higher price due to the high dollarized cost of inputs.

Brazilian rice production varies considerably in terms of technology and quality of production. While the South is known for its high use of inputs in irrigated rice production, the northern state of Roraima also boasts high technology and impressive yields. Roraima's highly mechanized large scale farms range from 300 to 3,000 hectares, are situated on a large savannah plateau surrounded by tropical rainforest. Most farmers utilize GPS and laser systems and enjoy favorable climatic conditions which allow for three highly productive crops a year. Yields on some farms reach 7,000 kilograms per hectare, more than double the national average of 3,300 kg/ha. Despite high production costs, rice production remains profitable, and the state could easily triple its production to supply the north and increase its exports to neighboring Venezuela.

## Trade

Considerable imports or exports of rice are unlikely due to large supplies. However, regional trade continues, due to the nature of Mercosul. Rice imports are forecast at 618,000 tons in 2001/02 and 600,000 tons in 2002/03, with neighboring Mercosul countries as the primary suppliers. Exports are forecast at 136,000 tons for 2001/02, and at 50,000 tons in 2002/03. Exports are destined for Mercosul countries, as well as to Venezuela from new rice growing regions in the northern state of Roraima.

Brazil explored the possible sale of rice stocks. However, rising domestic rice prices and declining government stocks extinguished the possible sale of 90,000 tons of Brazilian government stocks of paddy rice to Iran. The domestic price of paddy rice rose more than 25 percent in September, thereby improving the profitability of selling rice domestically. Furthermore, government stocks were sufficient to cover only two months of domestic demand. Given the international uncertainty following September 11, the government decided not to go ahead with its export program.

## POLICY

### New Regulations

Brazil has announced new phytosanitary requirements for imports of 27 agricultural products. Under the regulations, every nation outside of the Mercosul will have to provide Pest Risk Assessments within 180 days for each of the 27 products. The products include pineapple, alfalfa, cotton, garlic, rice, rye-grass, potato, coffee, cocoa, onion, rye, barley, rape and rapeseed, ground-honeysuckle, beans, tobacco, sunflower, melon, corn, strawberry, pepper, soybean, sorghum, tomato, clover, grapevines, and triticale. Brazil has stated that they will notify the WTO of the new measures. The new regulations are expected to be published in the *Diario Oficial* (Federal Register) by the end of March.

### MERCOSUL

Brazil is a member of MERCOSUL, which is comprised of Brazil, Argentina, Uruguay, and Paraguay. Countries within MERCOSUL enjoy duty-free access for most agricultural products traded within the trading bloc, while a Common External Tariff (CXT) is applied for non-MERCOSUL countries. The CXT puts U.S. agricultural products at a competitive disadvantage, particularly for bulk commodity sector (wheat, corn, and rice) in which price is one of the most important factors. The MERCOSUL's Common External Tariff (CXT) was lowered 1 percent in January 2002.

The new CXT for wheat is 11.5 percent, while corn and sorghum face a 9.5 percent tariff. The tariffs on non-MERCOSUL rice are 11.5 percent for HS1006.10 (excluding for seed), 11.5 percent for HS1006.20, 13.5 percent for HS1006.30.11 and HS1006.30.21, and 11.5 percent for HS1006.30.19 and HS1006.30.29, and 11.5 percent for HS1006.40.

#### Changes at CONAB

In order to comply with the Law of Fiscal Responsibility, the National Supply Company (Conab) is undergoing restructuring and downsizing to reduce costs and boost revenue. The state-owned company administers, stores, markets, and sets minimum prices for agricultural products. Conab has been suffering large debts, and ended the first semester of 2001 with a R\$29.8 million deficit, despite a transfer of R\$121.8 million from the National Treasury to pay employee salaries. Conab will concentrate in activities which the government considers essential and strategic, particularly the operation of agricultural policy. Conab will sell more than two-thirds of its storage facilities and release 45 percent of its work force, primarily warehouse employees. The sale of the warehouses should not affect government stocks as most are currently held in private storage facilities. Most of Conab's agricultural policy functions should remain, such as setting minimum prices, managing and disseminating agricultural information, managing options contracts and the EGF/AGF programs.

#### Administrative and Fiscal Measures

U.S. agricultural products face other constraints in accessing the Brazilian market. Administrative and fiscal impediments include the Merchant Marine Tax, which is a 25-percent surcharge on the value of the freight for imports of all products (Note: this measure has been waived for imports to the North/Northeast regions of Brazil in order to stimulate development in the region); import licensing requirements; and the cash sale requirements on imports of corn and rice. These constraints increase costs for the importer and generally results in the exporter being priced out of the Brazilian market. (Note: some measures have been removed in periods of domestic shortages, these measures are also waived for short periods of time to facilitate imports).

#### Support Prices

Brazil maintains agricultural support prices for many commodities, and the prices often vary by region, variety, and timing of the crop. The minimum prices for corn for the 2001/2002 crop year range from R\$6.27/60kg to R\$7.21/60kg (US\$44-50/ton). Rice minimum prices are more variable, due to greater differences in varieties and planting methods, and range from R\$7.23/60kg to R\$12.64/60kg (US\$51-90/ton).

In an effort to encourage wheat production and reduce dependence on imports, Minister of Agriculture Pratini increased the minimum price for wheat and instated higher prices for non-traditional growing regions. This



year's minimum price for wheat in the three southern states of Rio Grande do Sul, Santa Catarina, and Parana is R\$285/ton while Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal enjoy a higher minimum price of R\$300/ton. Last year's minimum price for wheat was R\$225/ton for all regions.

The government is likely to use a variety of the policies and programs discussed below for the 2002/2003 crops. Although next crop year's programs will not be announced for months, Post expects that policy tools will remain essentially the same.

### Key Elements of Domestic Subsidy Programs

The Brazilian government maintains a rural credit system that offers various instruments to support agricultural production and farm income. These programs can be summarized as follow:

#### 1. Government Commodity Loan Program (EGF):

This program is highly used by farmers to finance the holding of their products in accredited warehouses as collateral for the bank lender. The loan amount is based on the value of product offered as guarantee, based on a minimum price set annually by the government for various products. Banks normally provide loans on the basis of 70 percent of the minimum price. Subsidized interest is available at annual rates of 8.75 percent. The volume of such subsidized credit available is limited.

#### 2. EGF-Industry Commodity Loan Program:

This program is similar to EGF, but applicable only to processors of agricultural commodities under the Minimum Support Price Program, except for rice and soybeans. Access to this program is gained directly between the processor and the farmer or cooperative. Financing is limited to 50 percent of the production capacity of the processors, and payment to the farmer can not be lower than the government-established minimum commodity price in effect. Subsidized interest is available at annual rates of 8.75 percent.

#### 3. Government Commodity Acquisition Program (AGF):

This program is similar to EGF and applicable to farmers who sell farm products to the federal government. Products must be in accredited warehouses, cleaned, dried and graded. The government, through the National Food Company (CONAB), an entity of the Ministry of Agriculture and Food Supply (similar to USDA/CCC) purchases the product at the minimum price.

#### 4. Rural Promissory Note (CDR):

Processors of agricultural commodities can contract a CDR with accredited banks. Financing is limited to 50 percent of the processor's production capacity. Processors must prove they have paid at least the minimum price to the producer. Products eligible for CDR are: cotton, rice, corn and wheat. Subsidized interest rates are 8.75 percent plus banking expenses.

#### 5. Subsidy Auction Program (PEP):



This program is similar to the U.S. loan deficiency payment program. Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. Only wheat, corn, and rubber have been eligible for this program so far. The federal government through CONAB conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the minimum support price in force. Buyers (normally processors or millers) must transport the product to the destination previously established by the program.

PEP was first introduced in November 1996 to help sales of domestic wheat at the minimum price and to relieve pressure on government purchases of wheat. The PEP was initially put in place to assist in the marketing of lower quality wheat shunned by mills at prevailing market prices. Wheat was put up for auction to millers who bid on the level of the subsidy and not the price of the wheat. Through these official auctions, the government compensated for some of the difference between the prevailing market price and the minimum price. Under the PEP, the government never takes possession of the wheat itself but facilitates the transfer of the wheat from the seller to the buyer. In some respects the program is basically a transportation subsidy as the bonus varies with the distance from the seller to the purchasing mill. After an initial slow start in 1996, PEP auctions accelerated and PEP has proven useful marketing tool for the Brazilian government. The costs of PEP are much less than purchase, storage, subsequent marketing, and eventual losses under a Government purchase program.

#### 6. Option Contract:

The federal government through CONAB offers a futures price, normally between harvest periods, for purchase of eligible (wheat, corn, rice, and cotton) product. The futures price is established by CONAB at the moment the contract is offered, and the price is always above the minimum price. The producer may acquire a put option to sell contracts of 27 metric tons. The producer of the option contract acquires the right to sell the contracted product to CONAB at a later date and price specified in the contract.

#### 7. Product Equivalency:

Small producers, under the Program to Strengthen Family Farms (PRONAF), are entitled to production cost financing based on the equivalency concept: farmers pay their back loans by delivering an equivalent amount of the crops. The government established minimum price is used as reference. This scheme is only available for cotton, rice, corn and wheat. Interest rates for small family farms are highly subsidized, at the annual interest rate of 5.75 percent. The volume of credit available at this rate is limited.

#### 8. Other:

Long-term support for production and processing of agricultural products is centralized in the BNDES - Brazilian Bank for Economic and Social Development, along with the Special Agency for Industrial Financing (FINAME). Both form the BNDES system. The BNDES system's mission is to foster economic and social development in Brazil, acting as an agent for long term investments. The BNDES system provides financial support to the following sectors of the Brazilian economy: agriculture, industry, infrastructure, commerce and services. The BNDES system offers a broad range of services to support various agribusiness project types. Among those are:

- FINAME Rural. A credit line destined for acquisition, maintenance and/or rebuilding of

agricultural machinery. The annual interest rate is 14.5 percent for a period of 5 years, with a grace period of two years.

- BNDES Automatic. A credit line aimed at creating pasture, other animal production projects, and for production of forest products. Annual interest rates are similar to the credit line above and terms of financing are flexible according to each project.